

# Montgomery County, Maryland - Disclosure For Fiscal Year 2013

<b>\$46,765,000</b> <b>MONTGOMERY COUNTY</b> <b>MARYLAND</b> <b>Revenue Bonds</b> <b>(Department of Liquor Control)</b> <b>Series 2009A</b>	<b>\$34,360,000</b> <b>MONTGOMERY COUNTY</b> <b>MARYLAND</b> <b>Revenue Bonds</b> <b>(Department of Liquor Control)</b> <b>Series 2011A</b>	<b>\$46,645,000</b> <b>MONTGOMERY COUNTY</b> <b>MARYLAND</b> <b>Revenue Bonds</b> <b>(Department of Liquor Control)</b> <b>Series 2013A</b>
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## Wholesale Operations

### Wholesale Facility

In the second half of calendar year 2013, the Department of Liquor Control moved its principal wholesale facility, a warehouse (the "Existing Warehouse"), which is owned by the Department to Edison Park Drive in Gaithersburg, MD. The Existing Warehouse has a total of approximately 185,000 square feet of storage space, of which approximately 10,000 square feet is a keg facility. The new warehouse is climate controlled.

The Department uses the Existing Warehouse to store approximately 4,000 SKU's stock beer, wine and spirit products for resale to wholesale customers. Stock products are purchased in bulk and stored at the Existing Warehouse for wholesale customers to purchase, and for transfer to the 23 County retail stores. The Department also offers thousands of items as special order and will research any product a customer wants to ascertain price and availability. Special order items are usually not warehoused, but are obtained specifically for both wholesale and retail customers. The procurement process starts once the product is ordered. The Existing Warehouse also houses the Department's administrative activities.

### Wholesale Customer Base

The Department's wholesale customer base comprises every licensed seller of alcoholic beverages in the County. There are over 900 license holders in the County, including restaurants, carry-out stores, hotels, conference centers, caterers, clubs and lodges. The Department's ten largest wholesale customers in calendar year 2013 were:

<u>Customer</u>	<u>CY 2012 Sales</u>	<u>Percent of Total Wholesale Sales</u>
Safeway.....	\$3,983,592	3.1%
Shoppers Food Warehouse .....	3,849,736	3.0
Rodman's Gourmet.....	2,124,577	1.7
Rodman's Party Boutique.....	1,988,331	1.6
Georgetown Square Wine and Cheese.....	1,770,066	1.4
Giant Food Store.....	1,720,021	1.4
Balducci's .....	1,681,159	1.3
Long Branch Beer and Wine .....	1,481,532	1.2
Belby's Discount .....	1,448,163	1.1
Finewine.com .....	1,257,305	1.0
Total.....	<u>\$21,304,482</u>	<u>16.8%</u>

Source: Department of Liquor Control

### Wholesale Suppliers

The Department is not subject to County procurement laws or regulations for purchasing beverage alcohol. The Department procures its stock from wholesale distributors, breweries, wineries and distillers.

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The Department's ten largest wholesale suppliers in calendar year 2013 were:

<u>Supplier</u>	<u>CY 2012 Purchases</u>	<u>Percent of Total Wholesale Purchases</u>
,Diageo.....	\$15,367,596	8.20%
Anheuser Busch, Inc. ....	13,808,513	7.37
Miller Brewing Company .....	12,932,555	6.90
Crown Imports, LLC .....	11,120,663	5.93
E & J Gallo Winery .....	10,216,221	5.45
Heineken USA.....	7,874,171	4.20
Constellation Brands Inc. ....	6,813,670	3.64
Bacardi USA Inc. ....	6,002,086	3.20
Pernod Ricard USA, LLC.....	5,311,472	2.83
Republic National.....	5,141,477	2.74
Total.....	<u>\$94,588,423</u>	<u>50.47%</u>

Source: Department of Liquor Control

## Retail Operations

### Retail Facilities

The Department operates 23 retail stores located throughout the County. These stores sell non-chilled beer, wine and liquor, plus ice, bottled water and certain mixers.

The stores vary in size, from approximately 2,100 square feet to over 7,400 square feet. The Department leases the stores. The inventory in each store varies according to sales patterns and available retail space. In fiscal year 2013, no single location accounted for more than 6.6 percent or less than 0.8 percent of total Department retail sales.

The Department regularly reviews the operating performance of each retail store. Occasionally, the Department relocates stores to more dynamic retail locations, such as the recent relocation of Montgomery Village to Goshen Plaza. The Department also seeks opportunities to better serve patrons by opening new stores in underserved locations. In FY13, the Department negotiated two new locations: Clarksburg and Seneca Meadows, which will open in FY14.

### Retail Sales

The distribution of sales across the Department's 23 retail facilities that were in operation in fiscal year 2013 was as follows:

<u>Retail Store</u>	<u>FY 2012 Sales</u>	<u>% of Total Retail Sales</u>
Burtonsville .....	\$ 3,295,162	2.7%
Cabin John.....	4,341,161	3.5
Chevy Chase .....	2,347,995	1.9
Cloverly .....	3,525,309	2.9
Darnestown.....	6,176,056	5.0
Fallsgrove .....	4,754,667	3.9
Flower Avenue .....	2,815,225	2.3
Goshen Plaza .....	4,413,234	3.6
Hampden Lane.....	6,432,186	5.2

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Kensington.....	6,093,193	5.0
Kingsview.....	4,931,660	4.0
Leisure World.....	4,400,820	3.6
Milestone.....	8,092,478	6.6
Montrose.....	7,958,721	6.5
Muddy Branch.....	7,224,299	5.9
Olney.....	5,501,335	4.5
Pike.....	6,599,536	5.4
Potomac.....	6,646,216	5.4
Silver Spring.....	5,797,680	4.7
Walnut Hill.....	4,817,453	3.9
Westwood.....	7,272,689	5.9
Wheaton.....	4,495,845	3.7
White Oak.....	<u>4,767,585</u>	<u>3.9</u>
Total:	<u>\$122,700,506</u>	<u>100.0%</u>

Source: Department of Liquor Control

There is one private retail facility in Takoma Park with authority to sell distilled spirits beverages for off-site consumption. In calendar year 2013, that facility purchased approximately \$178,057 of distilled spirits from the Department.

### Results of Operations

#### Annual Operating Results

The Department's annual operating results have consistently created significant net revenues for transfer to the County's general fund. The following chart shows the total operating expenses, total operating revenues and net revenues for fiscal year 2013:

#### Annual Operating Results

(dollars in thousands)

	<b>2013</b>
Sales, net	\$ 256,881
Other operating revenues	1,996
Total operating revenues	<u>258,877</u>
Non-operating revenues /(expenses)	(1,428)
Revenues	<u>257,449</u>
Less: Expenses	224,305
Net Income	<u><u>\$ 33,144</u></u>

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## Sales Allocation

The Department's retail and wholesale sales for fiscal year 2013 are as follows:

<u>Fiscal Year</u>	<u>Retail Sales</u>	<u>Warehouse Beer Sales</u>	<u>Warehouse Wine/Liquor Sales</u>
2013 .....	\$122,447,676	\$77,470,324	\$56,962,993

Source: Department of Liquor Control

## Cases Sold from Warehouse

The Department's sales by category for fiscal year 2013 were as follows:

<u>Fiscal Year</u>	<u>Case Beer</u>	<u>Keg Beer</u>	<u>Wine</u>	<u>Liquor</u>
2013 .....	70%	2%	20%	8%

Source: Department of Liquor Control

## Transfers to the General Fund

By State law, the Department transfers its net revenues, after retention of a working capital reserve, to the County's general fund. The amount of the transfer is budgeted by the Department and the County and approved by the County Executive by March 15 for the fiscal year beginning on the ensuing July 1. Transfers are made on or before September 25, December 25, March 25 and June 25 in each fiscal year. The transfer amount for fiscal year 2013 was as follows:

<u>Fiscal Year</u>	<u>Amount of Transfer</u>
2013 .....	\$ 25,729,463

Source: County Comprehensive Annual Financial Report

## Working Capital Reserve

Pursuant to State law, the Department retains a working capital reserve in an amount determined by the Director of the Department and the Director of Finance of the County, subject to the approval of the County Executive. Beginning in fiscal year 2003, the amount of the working capital reserve has been set at the aggregate of (1) one month's operating expenses, (2) the amount of one payroll cycle (currently bi-weekly), (3) \$1.5 million for inventory purchase, and (4) major, near-future non-recurring expenses (such as start-up costs for new retail facilities).

The amount of the working capital reserve in fiscal year 2013 was as follows:

<u>Fiscal Year</u>	<u>Amount of Working Capital Reserve</u>
2013 .....	\$5,133,136

Source: Office of Management and Budget

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## Financial Results

The following chart shows the Department's financial results for fiscal year 2013:

	<u>2012</u>
<b>Operating Revenues</b>	
Sales, net	\$ 256,880,993
Other revenues	1,995,661
Total Operating Revenues	258,876,654
% Change from prior year	2.60%
<b>Operating Expenses</b>	
Cost of goods sold	181,941,516
Personnel costs	25,227,365
Contractual services	1,761,188
Rentals	6,436,345
Depreciation	1,547,073
Maintenance	443,722
Other expenses	6,949,417
Total Operating Expenses	224,306,626
% Change from prior year	2.54%
Gain/Loss on disposal of capital assets	(10,869)
Investment income	278
Interest Expense	(1,442,087)
Other revenue	26,337
Total Non-Operating Revenue (Expense)	(1,426,341)
<b>Net Revenues</b>	33,143,687
Add Back: Depreciation	1,547,073
Add Back: Interest Expense	1,442,087
Less: Retention of Working Capital	(5,133,136)
<b>Net Revenues Available for Debt Service</b>	\$30,999,711
Existing Debt Service	\$6,351,750
Debt Service Coverage	4.88x
Transfer to the General Fund	25,729,463
Ending Cash Position	7,382,744
Unrestricted Net Assets	14,032,891

Sources: County Comprehensive Annual Financial Report and  
Department of Liquor Control